



DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

BOARD OF DIRECTORS

*Joint Meeting of the
Finance and Budget and Audit Committees
Thursday, July 28, 2005
9:00 a.m.*

MEETING MINUTES

BOARD MEMBERS

Glenn S. Gerstell
David J. Bardin
Paul Folkers
Brenda Richardson

WASA STAFF

Jerry Johnson, General Manager
Paul Bender, Chief Financial Officer
Avis M. Russell, General Counsel
Michelle Cowan, Director of Finance & Budget
Michael Hunter, Internal Auditor
Linda Manley, Secretary to the Board

Chairman Gerstell called the meeting to order at 9:12 a.m.

Financial Report

Michelle Cowan, Director of Finance & Budget, presented the June 2005 financial overview and stated that there are no significant changes to report. At the end of the third quarter (75 percent of the year complete), operating receipts are still running two percent ahead of budget primarily because of the one-time impact of conversion from quarterly to monthly billing.

Operating expenditures through June totaled \$189 million, or 68 percent of budget with 75 percent of the fiscal year complete. Savings in debt service, personnel services, and contractual services are the primary drivers of the better than budgeted performance, although spending is expected to increase over the last quarter due to seasonal and year-end close activities, particularly in the contractual services area. Ms. Cowan noted that spending pressures continue in the chemicals and utilities areas, as previously reported to the Board, but that we expect anticipated savings in the previously mentioned areas will adequately cover any overruns.

With 75 percent of the fiscal year complete, year-to-date capital spending totaled \$151 million, or 51 percent of the original Board-approved disbursements budget. Staff has developed revised capital spending projections; the revised projection totals \$213 million, or \$85 million less than the original Board-approved disbursements budget of \$297 million. Ms. Cowan summarized spending by major service area, and referred the Committee to the detailed report provided to the Environmental Quality and Operations Committee that was sent to all Board members.

Ms. Cowan reported total cash balances at the end of June were \$216.3 million. The cash balance includes \$74.5 million for the special Congressional appropriations for the Combined Sewer Overflow Long Term Control Plan (including interest); and, \$27.5 million for the rate stabilization fund. The operating reserve balance totaled \$114.3 million, and is in excess of the Board's policy

requirement of \$97.7 million and we expect to draw down these balances in accordance with the Board's reserve level. Several large cash payments will occur in the next several months including the largest of which is the repayment of the District's general obligation debt.

Chairman Gerstell asked if management expected to make a contribution to the rate stabilization fund in FY 2005. Ms. Cowan replied that because of the better than budgeted financial performance in all areas, she expects that we will make a contribution in September. Staff will complete that analysis in August and early September, and expect that while the contribution will not be as high as \$8 – 10 million, it will be in the \$5 million or less range.

Mr. Bardin inquired about the status of the CSOLTCP contract. Mr. Johnson responded that additional discussions were held with the consultant last week; management received the final submission from the consultant based on those discussions; and that management still had concerns regarding some of the consultant's responses. Management will make a decision over the next few weeks on how to proceed.

Mr. Bardin asked how much revenue is billed through the automated meter reading system (AMR). Ms. Cowan indicated that approximately 72 percent of revenue is being billed through AMR. Mr. Bardin asked that this statistic continue to be reported to the Committee each month.

Electric Costs

Paul Bender, Chief Financial Officer, discussed the status of current prices, which are high. Some nuclear facilities that serve WASA's regional network had unscheduled work and that, coupled with the warm weather, resulted in higher prices. Even with this spike, we expect to be at or slightly above approved budget levels for the year and the expectation is that prices will decline beginning in the fall. As approved by the Board last month, Mr. Bender reported that management signed the electric contract with Amerada Hess. The contract provides WASA the ability to lock in when prices moderate.

Capital Projects Update

Mr. Johnson provided the board with an update concerning two capital projects that may require substantive increases: the digesters project and the lead service line replacement project. Issues concerning these two projects will be the subject of discussions during the FY 2007 budget process. Staff will conduct a more detailed review of both projects and update the Board during its budget review in October.

Lead Service Line Replacements

Mr. Johnson continued with a status report on WASA's lead service line replacement program. On August 1, WASA will provide a report on the current inventory of lead service lines to the U.S. Environmental Protection Agency. Based on test pitting results and other related analyses, staff has determined that there may be more lead service lines than originally estimated in the June 2001 inventory previously reported to EPA. If additional test pitting and replacement analysis over the next year support a higher number of lead service lines, it could result in a significant increase in costs and schedule changes to the lead service line replacement program.

Mr. Gerstell asked whether the identification of unknown service line materials through the test pitting process accounts for the increased inventory level. John Dunn responded that half of the "unknowns" appear to be in a high probability area, where the statistical probability is 65 percent that the service line will be lead. In the low probability areas of the city only 11 percent are probably lead. Increased test pitting over the next year should result in better statistical data.

Mr. Gerstell noted the importance of communicating with the public that this is our best estimate using all of the data available to us, but that these estimates may change because they are based on a series of assumptions that may change upward or downward over time as additional analysis is completed.

Mr. Bardin explained his perspective on both the short term and long term aspect of these potential changes to the lead service line replacement program. In the short run, he believes there is no financial implication because WASA is replacing more lead service lines than stipulated by the administrative order. In the mid to long term, the extra lead lines will become evident in blocks where WASA anticipated there would be lead lines. Mr. Bardin noted that the priority replacement program comes to an end this year, and the cost implications will become even clearer next year as remaining replacements are scheduled on a block by block schedule.

Digesters

Mr. Johnson reported that there is a potential \$53 million increase due primarily to steel price increases and an extension of the construction schedule by up to two years based on additional analysis performed by WASA's consultants. Staff will conduct a thorough review of this project over the summer and will discuss various options with the Board during the 2007 budget review session.

Review of Internal Audit Activities

Auditing Projects

Michael Hunter reported on WASA's audit activities during the third quarter of FY 2005. Internal audit engaged in nine audits during the third quarter. These projects included the completion of an overhead review for the Department of Engineering and Technical Services. Work also included an entrance conference with WASA's annual audit firm, Thompson, Cobb, Bazilio; field work for the telecommunications review; business process reviews of several water service-related contracts; contract compliance issues and structure requirements for the Procurement Department; a review of fleet operations; planning stages for beginning a local area network review and an audit of WASA's SPLASH program processes. Mr. Hunter explained that the SPLASH audit will document work up to the point where the Salvation Army receives the contributions.

Mr. Bardin asked that the Internal Auditor examine happens to the money after it gets to the Salvation Army as he and the Customer Service Committee are particularly interested in ensuring that the Salvation Army utilizes contributions in a manner consistent with the Board's intentions. Mr. Hunter responded that he has been in contact with the Salvation Army and gained an understanding of how they process their applications once they are received and will look into fund utilization and reporting.

Staffing and Training Update

Next Mr. Hunter provided the Committee with a staffing and training update. One auditor resigned and two contractual staff are supplementing the current three-person auditing staff.

Other Business

Mr. Bardin asked that the staff research and distribute a bill sponsored by Congressman Thomas Davis, Chairman of the House Government Reform Committee, regarding the appointment of an independent inspector general for another independent agency, the Washington Metropolitan Transit Authority (WMATA).

CFO's Departure

Mr. Gerstell acknowledged the impending departure of WASA's Chief Financial Officer of eight years, Paul Bender. Mr. Gerstell and board members expressed gratitude and appreciation to Mr. Bender for his tenure at WASA and noted the many financial accomplishments attributable to his leadership. The Chairman, on behalf of the Board, presented Mr. Bender with a plaque in recognition of his service to the Authority.

The Chairman asked Mr. Johnson to provide the Board with his short-term and long-term recruitment plans for the Chief Financial Officer position.

Hearing no further business from the Committee members, Mr. Gerstell adjourned the meeting at 10:07 a.m.